



Excise Tax Advisory

Excise Tax Advisories (ETAs) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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Manufacturers' Machinery and Equipment Exemption — Rental of Tangible Personal Property and Rental of Equipment with an Operator

The Department has issued a series of Excise Tax Advisories (ETAs) to address questions regarding the retail sales and use tax exemption provided by RCW 82.08.02565 and 82.12.02565, commonly referred to as the manufacturers' machinery and equipment exemption (M&E exemption). This advisory, ETA 2012-1S, is issued to address the application of the M&E exemption to the activities of renting tangible personal property and the rental of equipment with an operator. Please refer to ETA 2012.08.12.13601 for a current list of the issues covered by this series.

The M&E exemption is available for the sale or use of certain machinery and equipment used directly in a manufacturing operation. "Machinery and equipment" is defined in the law to be "industrial fixtures, devices, and support facilities, and tangible personal property that becomes an ingredient or component thereof."

Questions have been raised regarding the eligibility of the "renting or leasing of tangible personal property to consumers" and the "rental of equipment with an operator" for the M&E exemption. Both activities are included in the definition of "retail sale" in RCW 82.04.050(4).

Renting or Leasing of Tangible Personal Property

The "renting or leasing of tangible personal property," sometimes referred to as a bare rental or true lease, is a sale of tangible personal property. If the lease covers an extended period it is considered to be multiple sales of the same tangible personal property. The renting or leasing of tangible personal property, whether amounting to a single sale or multiple sales of the same tangible personal property, is eligible for the M&E exemption if all other conditions of the exemption are satisfied. For example, the rental of a crane on a bare rental basis to a manufacturer, whose employee operates the crane to move equipment to the top of a building, may be eligible for the M&E exemption.

Advisories numbered as 2 plus three digits (e.g. 2002.16.179) are advisories issued on or after July 2, 1998.

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Rental of Equipment with an Operator

The “rental of equipment with an operator” was added to RCW 82.04.050(4) in 1993, and is a separate and distinct activity from the “renting or leasing of tangible personal property.” Chapter 25, sec. 301, Laws of 1993 sp. sess. The “rental of equipment with an operator” is a sale of a service and not a sale of tangible personal property. While the seller is providing equipment along with the equipment operator, the customer is purchasing the knowledge, skills, and expertise of an operator needed to operate the equipment at the customer’s direction. Because the “rental of equipment with an operator” is not a sale of tangible personal property, it is not eligible for the M&E exemption. For example, manufacturer hires a company to provide a crane with operator to move equipment to the top of a building. While the company’s employee operates the crane, the equipment is actually installed by manufacturer’s employees. The purchase of the crane with operator service is not eligible for the M&E exemption.

The tax application of any scenario depends on the facts and circumstances of the particular situation. For example, consider the situation where a manufacturer hires a company to provide a crane with operator to move equipment to the top of a building and the personnel to install the equipment. In this case, the purchased services may be eligible for the M&E exemption because the company hired by the manufacturer is responsible for installing the equipment. Refer to WAC 458-20-211 (Rule 211) for additional guidance for distinguishing when a person is renting or leasing tangible personal property, providing a rental of equipment with an operator, or is performing construction or installation services.